

blue shield of california CalPERS reserve overview

December 18, 2007

summary of Blue Shield's reserving for CalPERS

- Blue Shield uses industry standard methods to set and manage reserves
- based on historical comparisons of actual claims run-out to booked reserves, Blue Shield's reserving for CalPERS has been highly accurate
- regular, independent reviews by Blue Shield's external auditors (Deloitte & Touche) and CalPERS external auditors have confirmed that Blue Shield's reserving is reasonable and accurate
- even if reserving is off in either direction, it has at most a minor and temporary effect on pricing due to roll-over feature

reserving process

CalPERS reserves are computed and restated on a monthly basis...

- based on historical claim experience and payment patterns
- by type of benefits for inpatient, outpatient, professional, ancillary, and pharmacy
- set for large outlier claims for high cost individuals
- consistent with other Blue Shield clients

reserving process....continued

CalPERS reserves are reviewed on a monthly basis by the Blue Shield Chief Actuary, Director of Reserves and the business unit actuaries...

- for reasonableness based on their knowledge of the business operations
- against inventory levels and business unit activities to ensure the reserve balances are aligned

CalPERS reserves and Blue Shield reserves in general, are reviewed regularly by independent third parties...

- on an annual basis by external auditors (Deloitte & Touche) for reasonableness and accuracy
- in accordance with the Blue Shield of California – CalPERS contract, the reserves have been audited twice, in 2004 and in 2006, by an independent third party actuarial firm and were found to be reasonable and accurate

guiding principles

Blue Shield of California reserves for the CalPERS line of business:

- are computed in accordance with commonly accepted actuarial standards, consistently applied, and fairly stated in accordance with sound actuarial principles
- are based on actuarial assumptions which produce reserves at least as great as those called for in any policy or contract provision as to reserve basis and method, are in accordance with relevant policy or contract provisions, and are appropriate to the purpose for which the Statement was prepared
- meet the requirements of the laws of the State of California
- are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end

financial position for CalPERS plans

The financial position of the Access + HMO and EPO plans remain strong

- the medical and pharmacy claims 12 month cost trend continues to show close to original pricing trends for 2007
- the financial results, plus adequate reserve levels, provide assurance that the rates approved by the Board for the 2007 plan year were sufficient to cover the cost of healthcare and administrative costs
- as the reserves are restated each month, any generated surpluses/deficits are rolled over to CalPERS on an annual basis
- Blue Shield's Risk Based Capital (RBC) level has been consistently above system-wide levels among all Blue plans
- Blue Shield is financially strong as shown by credit agency ratings